

Intellectual Property Secured Financing

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Outline

- A Practical Problem
- Commercial Law and Intellectual Property Law
- Intellectual Property, Secured Financing and Bankruptcy
- What To Do?

I. A Practical Problem

Getting Paid

Licensor licenses IP in exchange for periodic royalties based use. Licensee goes into distress. What does the Licensor do if –

- Licensee becomes insolvent?
- Licensee had a pre-existing security interest?

Possible Approaches

Are there effective *contractual* remedies, e.g. termination rights or assignment prohibitions?

Are there effective *intellectual property* remedies, e.g. effectiveness (attachment) rules?

Are there effective *secured financing* remedies, e.g. priority (perfection) rules?

Are there effective *insolvency* remedies, e.g. administrative claims?

Which one prevails in case of conflict?

Commercial Intellectual Property Law

- What is Intellectual Property Law?
- What is Commercial Law?
- U.S. Initiatives
- International Initiatives
 - UNCITRAL
 - UNIDROIT
 - WIPO

II. Commercial Law and Intellectual Property Law

What Law Applies To An IP Contract?

- General Law of Contracts (which one?)
- UCC Article 2 (or 2A)
- UCITA
- UN Convention on International Sale of Goods
- UNIDRIOT Model Law on Leasing
- National commercial law

Differing Approaches

- Commercial Law
 - Enabling
 - Functional
 - Apparent Ownership
- Intellectual Property Law
 - Regulatory
 - Formal
 - Actual Ownership

Is a License Transferrable?

- Commercial Law
 - Discourages transfer restrictions
 - Prohibits restrictions on royalty transfers
- Intellectual Property Law
 - Assignments – yes (usually)
 - Licenses – no (usually)
 - Royalties – maybe
 - Contradictory U.S. case law
 - International aspects

When Is A License Terminable?

- Commercial Law
 - Terminable at will (for services)
 - Waivers w/ consideration not terminable
- Intellectual Property Law
 - Different treatment for different IP
 - IP law or Commercial Law
 - Contradictory U.S. case law

Commercial Law Remedies

- “Anti-assignment” clauses
 - Contradictory case law
 - Generally unenforceable for royalties
- Termination Rights
 - *Ipsa facto* clauses unenforceable
 - Often commercially impracticable
 - Demands careful drafting
 - Does not help for unpaid pre-termination royalties

III. Intellectual Property, Secured Financing and Bankruptcy

What Law Applies To IP Security?

- U.S. Law
 - UCC Revised Article 9 *subject to*
 - Conflict preemption (R 9-109(c)(1))
 - Filing preemption (R 9-311(a)(1))
- International
 - UNCITRAL Secured Transactions Guide *subject to*
 - Conflict preemption (Recommendation 4(b))
 - Filing preemption (Recommendation 77)

Three Core Issues

“Purchase Money”:

- R-9 and Guide eliminate IP purchase money
- Licensor cannot gain priority over Licensee’s pre-filed secured lender in general security rights register

“Ordinary Course”:

- R-9 and Guide create “ordinary course” carve out
- Compatible with TRIPS?

Choice of Law:

- R 9-301 & 307 (perfection and priority “location of debtor”)
- Guide: creation (?), effectiveness, priority, enforcement – *lex protectionis*. What about royalties?

What Is the Bankruptcy Trustee?

Policy Approach: “Ideal Avoiding Creditor”

544(a)(1): “Hypothetical Lien Creditor”

544(a)(2): “Unsatisfied Execution Creditor”

IP: Which one applies to IP?

Case Law: Different answers depending on type of IP

Bankruptcy Code 544(a):

(a) The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or any creditor, the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is voidable by –

(1) a creditor that extends credit to the debtor at the time of commencement of the case, and obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained a judicial lien, whether or not such creditor exists;

(2) a creditor that extends credit to the debtor at the time of commencement of the case, and obtains, at such time and with respect to such credit, an execution against the debtor that is returned unsatisfied at such time, whether or not such creditor exists; or

(3) a bona fide purchaser of real property, other than fixtures, from the debtor, against whom applicable law permits such transfer to be perfected, that obtains the status of a *bona fide* purchaser and has perfected such transfer at the time of the commencement of the case, whether or not such a purchaser exists.

Revised 9 Application

Creation Rules:

- R 9-103 no IP purchase money (except software)
- R 9-408 voids restrictions on assignments of IP

Priority Rules:

- R 9-311 defers if statute preempts for lien creditor
- R 9-321 adopts “licensee in ordinary course”

Choice of Law Rules:

- R 9-301 & 307: “location of debtor” for perfection and priority if local law requires lien creditor filing
- Else file in D.C.

IP Application – Patents

Effectiveness - Nature of Security Right:

- *Cybernetics*, 252 F.3d 1039 (9th Cir. 2001) – patent security interest is a “license”
- *Prima Tek II*, 222 F.3d 1372 (Fed. Cir. 2000) – patent security interest a collateral assignment

Implications:

- Restrictions on creating a S.I. ineffective (R 9-408)?
- Is a contract right to payment an S.I. (R 9-505)?
- No purchase money allowed under R 9-103
- Filing priority: *Morrow*, 499 F.3d 1332 (Fed. Cir. 2007)
- Where to file? Debtor location? D.C.? International?
- How to enforce: R 9-610(a); *Sky v. SAP*

IP Application – Copyright

Priority Rules:

- *World Auxiliary Power*, 303 F.3d 1120 (9th Cir. 2002) – only registered copyrights perfected in Copyright Office
- *Peregrine Ent.*, 116 B.R. 194 (C.D. Cal. 1990) – royalties perfected by filing in Copyright Office

Implications:

- Restrictions on creating a S.I. ineffective (R 9-408)?
- No purchase money under R 9-103; software Sec. 202?
- Filing priority for registered copyrights
- What about unregistered copyrights – R 9-311(a)(1)?
- What about royalties - *Peregrine*?
- Where to file – choice of law issue?

IP Application – Trademark

Priority Rules:

- *Roman Cleanser*, 43 B.R. 940 (Bkr. E.D. Mich. 1984) – S.I. an agreement for a “future assignment” on default
- *Marshak v. Green*, 746 F.2d 927 (2d Cir. 1984) – lien creditors not allowed on federal trademarks

Implications:

- Creating a S.I.: R 9-408 v. “Intent to use” applications
- Is a contract right to payment an S.I. (R 9-505)?
- No purchase money under R 9-103
- Filing priority if Lanham Act preempts (lien creditor)
- California Trademarks: B & P 14220(f) (1/1/09)
- Where to file – choice of law?

VI. What's A Licensor To Do?

Practical Drafting Rules

- Some issues cannot be solved by clever drafting!
- Consider termination & anti-transfer provisions
- Take a security interest in Licensee's IP AND receivables
- File a Mortgage ("collateral assignment") in IP Office AND file UCC-1s in Licensee location AND D.C.
- Call for help in case of bankruptcy

Upcoming Initiatives

- UNCITRAL IP Annex
- UNCITRAL Model Law on Secured Financing
- WIPO ?
- U.S. ?